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8 November 1961 25X1

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CENTRAL

INTELLIGENCE

BULLETIN



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State Dept. review completed

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## CENTRAL INTELLIGENCE BULLETIN

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## DAILY BRIEF

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France-Algeria: [The information minister of the provisional Algerian government (PAG), Mohamed Yazid, told the US ambassador in Tunis on 6 November that secret negotiations between France and the PAG are under way. Yazid indicated that the negotiations were progressing satisfactorily, and that a "major development" was possible in a matter of weeks. Ambassador Walmsley gained the impression that the French and the PAG no longer differ on questions of principle. In his initial speeches in his present provincial tour, De Gaulle expressed optimism about an early solution if "no one puts prior conditions, and we put none."]

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[\*Meanwhile, General Salan has reportedly consolidated his leadership of the anti - De Gaulle Secret Army Organization (OAS). [if France and the PAG reach an agreement, the OAS will order "total mobilization" of Europeans and pro-OAS Moslems in Algeria and will attempt to take power in Algiers, Bone, Oran, and Constantine. The OAS would then proclaim a French republic of Algeria and would call for negotiations between this new republic and the PAG. [Salan does not plan simultaneous action in metropolitan France.]

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\*Communist China - Albania: Peiping's strongest endorsement of the Albanian leadership since Khrushchev opened his attacks on Tirana at the CPSU congress last month is contained in the Chinese Communist party's message of greeting to the Albanian party on its 20th anniversary. Broadcast by Peiping on 7 November, the message specifically endorses the "correct" leadership of Enver Hoxha, the "long-tested" leader of the Albanian people. It lauds Albania's role in "preserving the purity of Marxism-Leninism" and alludes to the "profound comradeship-in-arms" between Peiping and Tirana.

While the message avoids direct criticism of Khrushchev's policy toward Albania, it indicates that the Chinese will continue to support Hoxha in the face of Soviet efforts to undermine his leadership. [REDACTED]

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Communist China: [REDACTED]

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[REDACTED] continued deterioration of the economy with no early prospect of recovery. These reports suggest that, contrary to Chinese claims, the difficulties stem less from natural calamities than from administrative and managerial bungling. Having indiscriminately built factories without regard to availability of raw materials, markets, or workers, the Chinese now reportedly have had to close down plants only recently completed. Food shortages, which were highlighted by a general ration cut in August--over 30 percent in some cases--are expected to become more severe during the coming winter and spring. [Because of these difficulties, Chinese planners have as yet been unable to formulate the Third Five-Year Plan, which is scheduled to start in 1963.] [REDACTED]

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South Korea - Japan: General Pak Chong-hui has decided to stop in Tokyo on 11 November while en route to Washington and confer with Prime Minister Ikeda in the belief that an agreement on South Korean financial claims against Japan can be reached at this time. South Korean security chief Col. Kim Chong-pil discussed this problem in Tokyo at the end of October, and returned to Seoul encouraged over the prospects for a solution. A Korean Foreign Ministry official told an American Embassy official on 4 November that top government leaders believed it was necessary to reach a settlement quickly because of the impending cut in US defense support. He said Seoul was convinced that the United States was attempting to shift some of the burden of aid to South Korea to Japan and that the aid reduction was a form of pressure on the Koreans to reach a settlement with Japan.

The Japanese remain cautious over the prospects for a quick settlement; the Foreign Ministry has indicated that willingness to concentrate on the financial issue does not change the Japanese position that a settlement is contingent on the negotiation of a bilateral fisheries agreement.

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\*Ecuador (Situation as of 0300 EST): President Velasco has been forced to resign, but his successor remains in doubt. The anti-Communist leaders of the armed forces, who early on 7 November supported Velasco in ousting Vice President Arosemena, a few hours later made Velasco in turn step down, and named Supreme Court Chief Justice Camilo Gallegos acting president. Arosemena, however, reportedly has been released from arrest and has made his way to the Legislative Palace, where Congress has installed him as president in accordance with the constitution.

Arosemena's indebtedness to leftists, his earlier demands for radical reforms, and his favorable accounts of his trip to

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the USSR last summer clearly outline his probable policy if he retains power. He could be more pro-Cuban than Velasco, and his administration would be open to Cuban subversive activity.

The military, whose support is essential to stable government, probably withdrew its support from Velasco in the belief that Arosemena had been disposed of, and because of the widespread breakdown of public order under Velasco's rule. The armed forces leaders have also resented Velasco's failure to reverse his pro-Cuban policy and crack down on leftist agitation. Prospects are that if Arosemena holds the presidency the military will take early action against him, and that if he is denied it, leftists will provoke major disturbances.

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French-Algerian Rebel Negotiations Reportedly Under Way

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[Yazid said that the talks were being held in such secrecy that even the Tunisians had not yet been informed, and that the PAG and the French had agreed to deny the existence of the talks. He said the PAG does not intend to press the French to recognize Algerian independence before negotiating guarantees for the European minority.]

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[Ambassador Walmsley thinks that two distinct processes are under way--secret negotiations in which the French and the PAG are exchanging concessions, and public statements by each side designed to condition opinion to its own hopes for a future Algeria. He feels that emphasis now is being placed on the method for achieving a settlement.]

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Continued Deterioration Reported in China's Economy

Peiping's continued reluctance to release economic statistics is in itself a tacit admission of production setbacks.

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[redacted] the country was "going downhill in all fields of endeavor," largely because of widespread managerial bungling. He cited demands on farmers to make iron and steel, and on factory workers to raise pigs, as examples of costly and unproductive campaigns. The extensive construction activity noted in 1958 and 1959 has ceased; idle construction rigs were noted next to partially constructed factories that looked as though they had been abandoned for some time.

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[redacted] part of the Wuhan Iron and Steel Plant--China's largest producer after Anshan--had been closed, [redacted]

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[redacted] only one blast furnace, one coke furnace, and one Martin furnace were in operation.

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[redacted] described the population as generally undernourished, but said the only signs of malnutrition he noted in Shanghai this summer were in the poorer sections of the city where the children had bloated stomachs. There was a general feeling of apathy among the people of Shanghai; it was a common sight to see huge crowds in the street who obviously had nothing to do.

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[redacted] it would take China "three to five years to recover from the agricultural calamities." He was told that these "calamities" had affected industrial production by causing a shortage of raw materials, thus making it necessary to send more people to the rural areas to work.

The Danish ambassador said that his main impression after two years in Peiping had been the "extraordinary economic setbacks"

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suffered by China. The ambassador attributed these difficulties to institutional factors--primarily the elimination of incentives for the peasants.

Even the optimistic comments of Viscount Montgomery following his recent tour of China had a negative aspect. Describing China's "normal grain harvest" at about 180,000,-000 tons, Montgomery said that only 150,000,000 tons were produced in 1960 and about 160,000,000 tons were expected for 1961. Production at this level would mean that the food situation in China is far worse than had previously been believed.

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